LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6489
BILL NUMBER: SB 296

NOTE PREPARED: Jan 30, 2004
BILL AMENDED: Jan 29, 2004

SUBJECT: Property Tax Deductions.

FIRST AUTHOR: Sen. Lubbers
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues		**(16,000)**	**(32,000)**
State Expenditures		**(872,000)**	**(2,585,000)**
Net Increase (Decrease)		**856,000**	**2,553,000**

Summary of Legislation: (Amended) This bill increases certain property tax deductions by 108%. It applies to the following deductions: elderly; blind or disabled; wartime service disabled; disabled veteran; surviving spouse of a WWI veteran; WWI veteran; residential property rehabilitation; historic property rehabilitation; and residentially distressed area property rehabilitation.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) **Total state expenditures from the Property Tax Replacement Fund (PTRF) would be reduced by an estimated $872,000 in FY 2005 (partial year) and $2.6 Min FY 2006 and future years.** The PTRF is annually supplemented by the state General Fund, so any change to expenditures from this fund would ultimately affect the state General Fund.

The increased deductions in this proposal would cause a reduction in homesteaders' property tax bills which would result in a savings of homestead credit expenditures. The savings are estimated at $709,000 in FY 2004 and $2.1 M in all other years.

The increased deductions would cause part of homeowners' tax burdens to be shifted to business personal property beginning in CY 2005. The state pays the 60% school general fund PTRC on all property, however, business personal property does not qualify for the regular 20% PTRC. The state's expense for PTRC would be reduced by an estimated $163,000 in FY 2005 and $480,000 in all other years.

Both PTRC and Homestead Credits are paid from the PTRF.

Explanation of State Revenues: (Revised) The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The total revenue reduction under this proposal is estimated at $16,000 in FY 2005 and $32,000 each year thereafter.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Under current law, the property tax deductions for the elderly, blind/disabled, and 100% disabled veterans are equal to $6,000 AV. The elderly deduction is further limited to ½ of assessed value. The WWI veterans and their surviving spouse deductions are currently set at $9,000 AV. The wartime service-connected disabled veterans' deduction equals $12,000 AV. This bill would increase all of these deductions by about 108%.

For taxes paid in 2002, the statewide total of all of these deductions was $1,219 M AV. The increased deduction amounts would result in additional deductions estimated at $1,316 M AV.

Beginning in CY 2005 this proposal would cause a shift of part of the property tax burden from homeowners to all property owners in the form of a higher tax rate. **The net tax shift from those homeowners who receive the additional deductions to all taxpayers is estimated at about $26 M in CY 2005 and $25 M each year thereafter.** A portion of the shift, as much as 30%, would fall back onto homesteaders as they too would pay the higher tax rate. **The net tax shift from the entire homeowner class to taxpayers in other property classes is estimated at about $18 M in CY 2005 and each year thereafter.** Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund. The following table summarizes the changes in AV deducted for the above deductions.

Deduction Type	2002 Deduction	Estimated 2005 Deduction	Increase
Elderly	$611.6 M	$1,272.1 M	$660.5 M
Blind or Disabled	199.2 M	414.3 M	215.1 M
Veterans (Combined)	407.9 M	848.5 M	440.6 M
Total	**$1,218.7 M**	**$2,534.9 M**	**$1,316.2 M**

The bill also makes changes to the rehabilitated property deductions. The residential property rehabilitation deduction currently equals up to $9,000 AV per unit for five years. The maximum deduction would increase to $18,720 per unit under this bill. In addition, under current law, the deduction only applies if the total assessed value prior to rehabilitation did not exceed $18,000 AV for a single-unit home, $24,000 for a two-family home, or $9,000 per unit for a dwelling with more than two units. These AV caps would also be increased by 108%.

The historic property rehabilitation deduction for structures at least 50 years old currently equals up to $60,000 AV for single-family dwellings and up to $300,000 AV for any other type of property. This deduction may be claimed for five years. This bill would increase the maximum deduction for single-family dwellings to $124,800. The maximum deduction for other types of property would remain unchanged at $300,000.

The deduction for rehabilitated property in a residentially distressed area currently equals up to $96,000 AV, depending on whether the property contains one, two, three, or four units. This bill would increase each of the caps by 108% up to $199,680 AV for four-family dwellings.

The value of these rehabilitation deductions is commingled with real property abatements on the auditor's abstract, making it impossible to quantify the current deductions. The total of all real property abatements plus rehabilitation deductions in 2002 was $2.0 B AV. Real property abatements most likely make up the overwhelming majority of this aggregate number, leaving a smaller amount representing rehabilitation deductions. The increase for these deductions is not considered in the above shift estimates.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County Auditors.

Information Sources: Local Government Database.

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